

Audited Financial Statements

Tri-City Health Center, Inc.

For The Years Ended June 30, 2014 and 2013

Tri-City Health Center, Inc.

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors
Tri-City Health Center, Inc.
Fremont, California

Report on the Financial Statements

We have audited the accompanying financial statements of Tri-City Health Center, Inc. (the "Center") which comprise the balance sheets as of June 30, 2014 and 2013 and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheets of Tri-City Health Center, Inc. as of June 30, 2014 and 2013 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2014, on our consideration of the entity's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Center taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

TCA Partners, LLP

Fresno, California
September 17, 2014

Tri-City Health Center, Inc.
Balance Sheets
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 857,124	\$ 642,060
Restricted cash	21,763	342,250
Patient accounts receivable, net	1,918,231	1,074,504
Grants, contracts, and other receivables	1,439,222	1,900,777
Estimated third-party payor settlements	167,595	389,113
Inventory	184,887	167,086
Prepaid expenses & other assets	118,220	87,761
Total current assets	<u>4,707,042</u>	<u>4,603,551</u>
Property and equipment, net	<u>4,843,801</u>	<u>5,156,083</u>
Total assets	<u><u>\$ 9,550,843</u></u>	<u><u>\$ 9,759,634</u></u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Current liabilities:		
Long-term debt, current portion	\$ 37,045	\$ 90,653
Line-of-credit	-	600,000
Accounts payable and accrued expenses	1,567,937	1,156,195
Accrued compensation & other liabilities	904,618	938,227
Deferred revenue	69,273	421,336
Total current liabilities	<u>2,578,873</u>	<u>3,206,411</u>
Long-term debt	<u>1,730,632</u>	<u>1,064,536</u>
Total liabilities	<u>4,309,505</u>	<u>4,270,947</u>
Net Assets:		
Unrestricted	<u>5,241,338</u>	<u>5,488,687</u>
Total net assets	<u>5,241,338</u>	<u>5,488,687</u>
 Total liabilities and net assets	<u><u>\$ 9,550,843</u></u>	<u><u>\$ 9,759,634</u></u>

See accompanying Notes to the Financial Statements

Tri-City Health Center, Inc.
Statements of Operations and Changes in Net Assets
For the years ended June 30, 2014 and 2013

	2014	2013
Change in Unrestricted Net Assets:		
Revenue and other support:		
Patient and third party revenue, net	\$ 10,786,251	\$ 8,566,514
Grant revenue	9,317,927	10,067,509
Contributions and other	880,365	1,232,557
Net assets released from restrictions	-	111,172
Total unrestricted revenue and other support	20,984,543	19,977,752
Expenses:		
Salaries and benefits	12,918,001	12,926,948
Medical contractual services	3,622,269	2,378,305
Purchased services	333,382	165,898
Supplies	1,642,746	2,043,741
Travel, conferences, and meetings	272,077	166,622
Facility costs	895,331	894,918
Insurance	56,909	51,515
Depreciation and amortization	471,094	385,564
Interest	115,370	120,678
Other	904,713	643,873
Total expenses	21,231,892	19,778,062
Change in unrestricted net assets	(247,349)	199,690
Change in Temporarily Restricted Net Assets:		
Net assets released from restrictions	-	(111,172)
Change in temporarily restricted net assets	-	(111,172)
Change in net assets	(247,349)	88,518
Net Assets:		
Beginning of year, as previously reported	5,488,687	6,077,990
Adjustments applicable to prior years	-	(677,821)
Beginning of year, as restated	5,488,687	5,400,169
End of year	\$ 5,241,338	\$ 5,488,687

See accompanying Notes to the Financial Statements

Tri-City Health Center, Inc.
Statement of Cash Flows
For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ (247,349)	\$ 88,518
Adjustments applicable to prior years	-	(677,821)
Adjustments to reconcile operating income in net assets to net cash provided by operating activities:		
Depreciation and amortization	471,094	385,564
Changes in operating assets and liabilities:		
Patient accounts receivable	(843,727)	(280,404)
Grants receivable	461,555	(447,690)
Estimated third-party payor settlements	221,518	1,853,592
Inventory	(17,801)	40,529
Prepaid expenses and other assets	(30,459)	(2,181)
Accounts payable and accrued expenses	411,742	6,058
Accrued compensation & other liabilities	(33,609)	(53,523)
Deferred revenue	(352,063)	(604,054)
Net cash provided by operating activities	<u>40,901</u>	<u>308,588</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(158,812)	(46,285)
Net cash used in investing activities	<u>(158,812)</u>	<u>(46,285)</u>
Cash flows from financing activities:		
Change in line-of-credit	(600,000)	600,000
Proceeds from new debt	1,800,000	-
Principal payments on long-term debt	(1,187,512)	(83,120)
Net cash provided by financing activities	<u>12,488</u>	<u>516,880</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ (105,423)</u>	<u>\$ 779,183</u>
Cash and Cash Equivalents:		
Cash and restricted cash at beginning of year:	<u>984,310</u>	<u>205,127</u>
Cash and restricted cash at end of year:	<u>\$ 878,887</u>	<u>\$ 984,310</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 115,370</u>	<u>\$ 120,678</u>

See accompanying Notes to the Financial Statements

Tri-City Health Center, Inc.
Notes to the Financial Statements
For the years ended June 30, 2014 and 2013

Note 1: Summary of Significant Accounting Policies

Organization and Operations:

Tri-City Health Center, Inc. (the "Center") is a non-profit corporation operating under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Center's purpose is to provide primary and preventative health care and related medical and health education services to persons of low to moderate income. Grants and contracts are primarily restricted for use toward program expenditures or purchases of property and equipment; other support is unrestricted, although intended to support the stated charitable purpose of the agency.

Basis of Accounting:

The financial statements have been prepared on the accrual basis of accounting, recognizing revenues when earned and expenses when incurred.

Temporarily and Permanently Restricted Net Assets:

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Center and changes therein are classified and reported as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations. This includes board designated funds, which have been set aside.

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may be, or will be, met either by actions of the Center and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported on the statement of activities as net assets released from restrictions.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that the Center maintains permanently. Generally, the donors of these assets permit the Center to use all or part of the income earned on any related investments for general purposes.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Center considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Of the cash balances, including restricted cash, as of June 30, 2013 and 2014, \$452,423 and \$254,799 respectively was covered by federal depository insurance and \$426,464, \$729,511 was uninsured respectively.

Restricted Cash:

Restricted cash consists of grant funds that have been designated for subrecipients. These funds are held until the Center receives notice of qualifying expenditures from subrecipients.

Accounts Receivable:

The Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. The Center provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Center bills third-party payors directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed.

Tri-City Health Center, Inc.
Notes to the Financial Statements
For the years ended June 30, 2014 and 2013

Note 1: Summary of Significant Accounting Policies (Continued)

Inventories:

Inventories consist of pharmaceutical, medical and office supplies and are stated at cost. Due to rapid turnover of supplies, cost approximates market value.

Property and Equipment:

Property and equipment are carried at cost or estimated fair value at date of acquisition. The Center capitalizes all acquisitions of \$5,000 or greater. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets ranging from three to 39 years. Leasehold improvements are amortized on a straight-line method over the estimated useful life of the improvement or the term of the lease, whichever is less. Construction-in-progress is recorded at cost and is capitalized upon completion. Depreciation is recorded when construction is substantially complete and the assets are placed in service.

Third-Party Contractual Agreements:

The Center has agreements with Medicare that provide payments under a cost-based reimbursement system and with Medi-Cal that provide payments under the Prospective Payment System ("PPS"). In the case of Medicare, reasonable estimates are made and reported in the period services are rendered, and differences between the estimates and actual receipts are included in the statement of operations in the period in which they are determined. In the case of Medi-Cal, payments under the PPS system are final, unless the number of reimbursable visits is changed as a result of an audit by the State of California, Department of Healthcare Services. In addition, under the Medi-Cal PPS, the Center may apply for a change-in-scope of services annually provided it meets requirements for a change in scope. This process may result in additional Medi-Cal reimbursement for the Center.

Estimated Third-party Payor Settlements:

Third party payor settlements represent estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Management believes these estimates are reasonable.

Revenue Recognition:

Patient service revenue is recorded at the Center's established rates adjusted for sliding fee scale discounts, provisions for uncollectible accounts and third-party contractual allowances to arrive at net service revenue. Revenue from government grants and contracts restricted for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions. Grants and contracts awarded are reported as unrestricted non-operating revenue, in absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as deferred revenue.

Tri-City Health Center, Inc.
Notes to the Financial Statements
For the years ended June 30, 2014 and 2013

Note 1: Summary of Significant Accounting Policies (Continued)

Donated Services, Materials and Facilities:

The Center regularly solicits contributions of services, materials, and facilities from the community. These contributions are recorded at fair market value as contribution revenue and contract service, supply, or facility expense.

Income Taxes:

The Center has been recognized by the Internal Revenue Service as a non-profit corporation as described in Sec. 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal and state income taxes on related income pursuant to Sec 501(a) of the IRC and California Revenue and Taxation Code Sec 23701(d).

The Center files a United States federal tax return and a California state tax return and has determined that its major tax jurisdictions are the United States and California. The tax years of 2010 through 2013 remain open and subject to examination by the appropriate government agencies in the United States and California.

Reclassification:

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Subsequent Events:

The Center has evaluated events and transactions that occurred after June 30, 2014, and through September 17, 2014, the date the financial statements were available to be issued.

Tri-City Health Center, Inc.
Notes to the Financial Statements
For the years ended June 30, 2014 and 2013

Note 2: Fair Value of Financial Instruments

Financial Accounting Standards Board's (FASB) Accounting Standard Codification (ASC) 820, *Fair Value Measurements and Disclosures*, requires the fair value of financial assets and liabilities to be determined using a specific fair-value hierarchy. The objective of the fair value measurement of financial instruments is to reflect the hypothetical amounts at which the Center could sell assets or transfer liabilities in an orderly transaction between market participants at the measurement date. FASB ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets;

Level 2 - Observable inputs other than Level I prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets;

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

Pursuant to FASB ASC 820, the Center's investments are classified within Level 1 of the fair-value hierarchy. The types of securities valued based on Level 1 inputs include money market securities. The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2014 and 2013:

	Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
2014				
Money market funds	\$ 172,709	\$ 172,709	\$ -	\$ -
Total	<u>\$ 172,709</u>	<u>\$ 172,709</u>	<u>\$ -</u>	<u>\$ -</u>
2013				
Money market funds	\$ 659,135	\$ 659,135	\$ -	\$ -
Total	<u>\$ 659,135</u>	<u>\$ 659,135</u>	<u>\$ -</u>	<u>\$ -</u>

The carrying amounts reported in the balance sheets for other financial assets and liabilities that are not measured at fair value on a recurring basis including patient accounts receivable, grant and other receivables, settlement receivables, accounts payable, accrued payroll and other expenses, deferred revenue, long term debt, and estimated third party liabilities approximate fair value.

Tri-City Health Center, Inc.
Notes to the Financial Statements
For the years ended June 30, 2014 and 2013

Note 3: Patient Accounts Receivable

Patient accounts receivable was comprised of the following payors at June 30, 2014 and 2013:

	2014	2013
Medi-Cal	\$ 1,798,039	\$ 923,786
Medicare	432,964	325,685
Other third-party payors	70,679	40,715
Private pay	548,220	306,241
Gross patient accounts receivable	2,849,902	1,596,427
Less allowances for contractual adjustments	(931,761)	(521,923)
Total patient accounts receivable, net	<u>\$ 1,918,231</u>	<u>\$ 1,074,504</u>

Note 4: Grants, Contracts, and Other Receivables

Grants, contract, and other receivables were comprised of the following at June 30, 2014 and 2013:

	2014	2013
Alameda County BHCS Mental Health Plan	\$ 136,752	\$ 136,922
Alameda County Office of AIDS	171,082	288,296
Alameda County Health Care Services Agency	17,376	331,601
Alameda County Health Care for the Homeless	328,502	-
CFHC Title X	44,390	110,986
Federal grants	-	385,666
Managed care risk pool receivable	531,909	468,305
Other	209,211	179,001
Total	<u>\$1,439,222</u>	<u>\$1,900,777</u>

Note 5: Property and Equipment

Land, building and equipment at June 30, 2014 and 2013 was comprised of the following:

	2014	2013
Land	\$ 901,172	\$ 901,172
Building and building improvements	4,543,612	4,541,562
Furniture and equipment	2,591,253	2,435,775
Subtotal	8,036,037	7,878,509
Accumulated depreciation	(3,192,236)	(2,722,426)
Total	<u>\$ 4,843,801</u>	<u>\$ 5,156,083</u>

Tri-City Health Center, Inc.
Notes to the Financial Statements
For the years ended June 30, 2014 and 2013

Note 6: Estimated Third-Party Payor Settlements

Medicare and Medi-Cal reimburse the Center at a tentative rate with a final settlement determined after the audit of the annual cost report submitted by the Center. Depending on the result of the audit, the Center might be obligated to refund part of the reimbursement to Medicare and Medi-Cal or vice versa. The Center has recorded an estimated receivable from third-party payors at June 30, 2014 and 2013 of \$167,595 and \$389,113 respectively.

Note 7: Net Patient Revenue

The Center has agreements with third-party payors that provide payments to the Center at amounts different from its established rates. A summary of the payment agreements with third party payors follows:

Medicare:

Medical services rendered to Medicare program beneficiaries are paid under a cost-based reimbursement system. The Center is reimbursed at a tentative ("interim") rate, with final settlement determined after submission of the annual cost report by the Center and audit thereof by the fiscal intermediary.

Medi-Cal:

Medical and dental services rendered to Medi-Cal beneficiaries are paid under the Prospective Payment System (PPS) using rates established by the Center's "Base Year" cost report filed under the previous cost based reimbursement system. These rates are adjusted annually according to changes in the Medicare Economic Index and any approved changes in the Center's scope of service.

Managed care contracts and other:

The Center is a member of the Alameda Health Consortium (the "Consortium"), which is a partnership between eight federally qualified health centers committed to providing a comprehensive range of professional health care and social services. The Consortium contracts with various managed care organizations and administers those contracts on behalf of the eight partner health centers. As part of those contracts, the Center receives capitated payments from the Consortium for providing primary care services to covered patients.

The Center also has entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Center under these agreements includes such methods as reimbursed costs, discounts from established rates, pre-determined fees for service, percentage of charges, and others.

Tri-City Health Center, Inc.
Notes to the Financial Statements
For the years ended June 30, 2014 and 2013

Note 8: Deferred Revenue

Deferred revenue was comprised of the following at June 30, 2014 and 2013:

	2014	2013
CA HIV/AIDS Research Program UCLA PCMH	\$ 21,762	\$ 361,917
Covidean	37,800	-
Baxter International Foundation	-	43,333
Other	9,711	16,086
Total	<u>\$ 69,273</u>	<u>\$ 421,336</u>

Note 9: Long-term Debt

Long-term debt at June 30, 2014 and 2013 consisted of the following:

	2014	2013
Note payable to Fremont Bank dated July 30, 2007 payable in monthly installments of principal and interest of \$14,842. The loan bears interest at a rate of 7.97% per annum and matures September 1, 2022. It is secured by the Center's real property.	\$ -	\$ 1,155,189
Note payable to Bank of The West dated August 27, 2013 payable in monthly installments of \$10,879. The loan bears interest at a rate of 5.26% per annum and matures August 27, 2023. The loan is secured by the Center's property.	1,767,677	-
Total long-term debt	1,767,677	1,155,189
Less: current portion	(37,045)	(90,653)
	<u>\$ 1,730,632</u>	<u>\$ 1,064,536</u>

Future principal payments are as follows for the years ended June 30:

Year	Principal
2015	37,045
2016	38,815
2017	41,191
2018	43,444
2019	45,818
Thereafter	1,561,364
Total	<u>\$ 1,767,677</u>

The Center has obtained a \$750,000 revolving line of credit. The outstanding balance was \$0 as of June 30, 2014 and \$600,000 as of 2013.

Tri-City Health Center, Inc.
Notes to the Financial Statements
For the years ended June 30, 2014 and 2013

Note 10: Retirement Plan

On December 31, 2013, the Center dissolved its tax-deferred annuity plan qualified under section 401(k) of the Internal Revenue Code. This plan was available to all full-time and part-time staff who completed one year of continuous employment. Tri-City Health Center, Inc. contributed 3% of eligible employees' salaries to an organization sponsored 401 (k) account. Participating employees could make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code at their discretion. The Center's contribution to the plan totaled \$110,256 for the period July 1, 2013 through December 31, 2013 and 255,951 for the year ended June 30, 2013.

Beginning January 1, 2014, the Center sponsors a tax-deferred annuity plan qualified under section 403(b) of the Internal Revenue Code and is available to all full-time and part-time staff who complete one year of continuous employment. Tri-City Health Center, Inc. contributes 2% to 4% of eligible employees' salaries based on duration of employment and matches up to 2% of employee contributions. Participating employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code at their discretion. The Center's contribution to the plan totaled \$140,891 for the year ended June 30, 2014.

Note 11: Commitments and Contingencies

Medical Malpractice Claims:

The Center is deemed an employee of the federal government and is covered for malpractice insurance under the Federal Tort Claims Act ("FTCA"). The Center has on-going litigation claims as result of its normal course of operations; however, in the opinion of management, these claims will be fully covered by the Center's insurance coverage and will not have a material adverse effect upon the financial statements.

Risks and uncertainties:

Laws and regulations governing Medicare and Medi-Cal programs are complex and subject to interpretation. The Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medi-Cal programs.

Operating Lease Commitments:

The Center leases certain facilities and equipment under operating leases expiring at various times through 2015. The future minimum lease payment for the succeeding years under these committed lease arrangements is approximately: \$580,204 in 2015; \$521,744 in 2016, and \$226,230 in 2017, and \$233,016 in 2018, and \$177,345 in 2019. Total rent expense for the year ended June 30, 2014 was \$499,011.

Tri-City Health Center, Inc.
Notes to the Financial Statements
For the years ended June 30, 2014 and 2013

Note 12: Related Party Transactions

The Alameda Health Consortium (the “Consortium”), is a partnership between eight health service organizations to provide a comprehensive range of professional health care and social services in a manner respectful to the community values and traditions. The Consortium’s purpose was to introduce the managed care business to its member clinics by servicing as a network of management service organizations which administers a risk sharing arrangement between the member clinics. The Center receives capitated payments from the Consortium for providing primary care services to covered patients. The Center periodically receives additional cash payments under the risk sharing arrangement, called risk pool distributions, from excess cash received by the Consortium on behalf of member clinics to pay their respective outstanding claims for services.

During the years ended June 30, 2014, and 2013 revenue related these additional risk pool distributions totaled \$605,223 and \$990,000, respectively. The Center has recorded a receivable related to the risk pool distributions in the amounts of \$531,909 and \$468,305 for the years ended June 30, 2014 and 2013, respectively.

Note 13: Functional Expenses

The Center provides healthcare services primarily to residents within its geographic area. Expenses related to providing these healthcare services are as follows:

	2014	2013
Healthcare services	\$ 16,573,882	\$ 15,133,547
General and administrative	4,658,010	4,644,515
Total	<u>\$ 21,231,892</u>	<u>\$ 19,778,062</u>

Note 14: Adjustment Applicable to Prior Years

In the year ended June 30, 2013, the Center discovered an error related to prior periods and made one adjustment that had an effect on the beginning balance of net assets. The adjustment included the following:

Third-party Payor Settlements:

In the year ended June 30, 2012 and prior, it was determined that the Center’s methodology for valuing estimated amounts due to or due from third party payors did not accurately reflect the net realizable value of such estimated settlements at June 30, 2012 and prior. The Center corrected this error to conform to the requirements of generally accepted accounting principles (GAAP) in the United States of America by decreasing the estimated amounts due from third-party payors. An adjustment of \$677,821 applicable to 2012 and prior periods has been included in the restated beginning of the year net asset balance.

As a result of this adjustment, net assets as of June 30, 2012 decreased by \$677,821 from \$6,077,990, as previously reported, to \$5,400,169, as restated.

SINGLE AUDIT REPORTS

Tri-City Health Center, Inc.
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2014

Federal Grant / Program Title	Federal CFDA Number	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, PUBLIC HEALTH SERVICES:		
Direct Programs:		
Community Health Cluster	*93.224	\$ 2,023,860
Ryan White Part C	*93.918	904,879
Special Projects of National Significance	93.928	205,234
Subtotal		<u>3,133,973</u>
Passed Through:		
California Family Health Council, Inc.:		
Family Planning Program Title X	*93.217	202,085
HIV Integration	*93.217	77,887
County of Alameda:		
Ryan White Part A	*93.914	561,661
Ryan White Part B	93.917	79,803
P340 Homeless Case Management	93.244	62,254
Transgender Female	93.940	77,001
Total federal financial assistance		<u>\$ 4,194,664</u>

* Denotes major program

Tri-City Health Center, Inc.
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2014

Note A: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the expenditures of Tri-City Health Center, Inc. (the "Center") under programs of the federal government for the year ended June 30, 2014. Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows for the Center.

For purposes of the Schedule, federal awards include all grants and contracts entered into directly between the Center, agencies, and departments of the federal government. The awards are classified into major program categories in accordance with the provisions of Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government and Non-Profit Organizations.

Note B: Basis of Accounting

For purposes of the Schedule, expenditures for federal programs are recognized on the accrual basis of accounting. Expenditures are determined using the cost accounting principles and procedures set forth in OMB Circular A-122, Cost Principles for Non-Profit Organizations.

Note C: Relationship of Schedule of Expenditures of Federal Awards to Financial Statements

Consistent with management's policy, federal awards are recorded in various revenue categories. As a result, the amount of total federal awards expended on the Schedule does not agree to total grant revenue on the Statement of Operations and Changes in Net Assets as presented in the Center's Report on Audited Financial Statements.

Note D: Pass-Through Awards

Tri-City Health Center, Inc. provided federal awards to subrecipients as follows:

Cluster/Program	Subrecipient	CFDA Number	Amount Expended
Ryan White Part C	Alameda Health Consortium	93.918	\$ 176,192
	Alameda County Medical Center	93.918	316,128
	Asian Health Services	93.918	14,014
	La Clinica De La Raza	93.918	77,034
	Lifelong Medical Care	93.918	86,065
			<u>\$ 669,433</u>

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Independent Auditor's Report

Board of Directors
Tri-City Health Center, Inc.
Fremont, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Tri-City Health Center, Inc. (the "Center"), which comprise the balance sheets as of June 30, 2014 and 2013 and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tri-City Health Center, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tri-City Health Center, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

TCA Partners, LLP

Fresno, California
September 17, 2014

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Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Independent Auditor's Report

Board of Directors
Tri-City Health Center, Inc.
Fremont, California

Report on Compliance for Each Major Federal Program

We have audited Tri-City Health Center, Inc.'s (the "Center") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2014. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on Each Major Federal Program

In our opinion, Tri-City Health Center, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2014-01. Our opinion on each major federal program is not modified with respect to these matters.

The Center's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Tri-City Health Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-01 that we consider to be a significant deficiency.

The Center's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Center as of and for the year ended June 30, 2014, and have issued our report thereon dated September 17, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

7CA Partners, LLP

Fresno, California
September 17, 2014

Tri-City Health Center, Inc.
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified	
Internal Control over financial reporting: Material weakness identified?	_____ Yes	<u> X </u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ Yes	<u> X </u> None Reported
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No

Federal Awards

Internal control over major programs: Material weakness identified?	_____ Yes	<u> X </u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> X </u> Yes	_____ None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	<u> X </u> Yes	_____ No

Major Programs

	<u>CFDA Number</u>
Community Health Custer	93.224
Ryan White Part C	93.918
Family Planning Program Title X	93.217
HIV Integration	93.217
Ryan White Part A	93.914
Dollar threshold used to distinguish Types A and B programs	\$ 300,000
Auditee qualified as low-risk auditee?	_____ Yes <u> X </u> No

Tri-City Health Center, Inc.
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014

II. Current Year Audit Findings and Questioned Costs

Financial Statement Findings: None

Federal Award Findings And Questioned Costs:

2014-01 Sliding Fee Discount Determination

CFDA Number:	93.224
Program:	Community Health Center Cluster
Compliance Requirement:	Program Income
Questioned Cost:	\$0.00

Criteria: Federal grant compliance provisions require that the Center correctly identify a patient's ability to pay and that the rates for services be adjusted accordingly based on the sliding fee schedule. The Center is required to follow its sliding fee policy when providing discounts to eligible patients.

Finding/
Condition: In our sample of tested items, patient information was inadequate to determine the proper sliding fee discount or patients were given incorrect discounts based on information provided.

Questioned
Cost: None.

Effect: Lack of strict enforcement of the policy of sliding fee eligibility determination and compliance may have resulted in the Center providing discounted services greater to or less than the appropriate amounts to beneficiaries.

Cause: Inadequate understanding of the sliding fee program requirements and Center policies by employees involved in sliding fee determination and billing.

Recom-
mendation: The Center's Management should review the sliding fee policy and make changes to simplify and clarify requirements. Additionally, training should be provided to employees on the sliding fee program requirements.

Corrective
Action Plan: The Center agrees with the recommendation and has taken steps to correct these errors. The sliding fee policy is currently being reviewed and revised. The Center will begin auditing the sliding fee discounts given on a sample basis as part of the Center's overall compliance program. Additional training will also be provided to front office staff in the areas of collections and sliding fee discounts.

Tri-City Health Center, Inc.
Schedule of Prior Year Findings and Questioned Costs
For the year ended June 30, 2014

III. Prior Year Audit Findings and Questioned Costs

Reference Number	Finding	Status
2013-01	Lack of personnel file documentation	Resolved
2013-02	Sliding fee discount determination	Unresolved